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RUEHBU/AMEMBASSY BUENOS AIRES 3676
RUEHAC/AMEMBASSY ASUNCION 5118
RUEHCV/AMEMBASSY CARACAS 3068
RUEHPE/AMEMBASSY LIMA 2792
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RUEHSG/AMEMBASSY SANTIAGO 5238
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TAGS: [ENRG](#) [EPET](#) [PREL](#) [EFIN](#) [BR](#)
SUBJECT: BRAZIL ADOPTS WAIT AND SEE ATTITUDE REGARDING
BOLIVIAN ENERGY POLICY

REF: A) 2005 BRASILIA 1503, B) 2005 BRASILIA 943, C) 2005
SAO PAULO 721

11. (U) This cable was coordinated with AmConsulate Rio de Janeiro.

12. (SBU) Summary. In recent discussions with Embassy officials, Ministry of Mines and Energy officials told us that Brazil, for various reasons, is adopting a wait and see attitude on the Bolivian energy situation in the wake of the victory of Bolivian President-elect Morales. While the Lula Administration would like to be supportive of Morales, a fellow leftist, at the same time it worries about the loss of Petrobras' massive investment in Bolivia and reliability of natural gas exports from that country. With the holiday period intervening, only now are high-level Brazilian policymakers beginning to seriously consider the Bolivian situation. End Summary.

13. (SBU) In the wake of the victory of President-elect Morales in last month's Bolivian elections, Brazilian energy sector policymakers are anxiously waiting to see what develops on their western front. On January 3, Ministry of Mines and Energy (MME) International Affairs Advisor Rubem Barbosa told Econoffs that the GOB has three (hopefully not inconsistent) objectives with respect to the new government's energy policy. First, given the intense turmoil in Bolivia over the past few years, the GOB wants to be as supportive as possible to the new Morales-led government. When Lula met with then-presidential candidate Morales in Brasilia in late 2005, Barbosa noted, the latter had emerged from that session declaring that if elected he would seek to buy out/nationalize Petrobras operations in Bolivia. If that was what Morales wanted, Barbosa continued, then the Government of Brazil would respect his

wishes. Barbosa thought that, so far, President-elect Morales has been somewhat restrained regarding his statements on energy policy, adding that this could easily change as Morales' radical supporters began to demand quick results.

¶4. (SBU) Second, Barbosa stated, Brazil also has a key interest in defending Petrobras' exploration, refinery, and distribution assets; with US\$1.6 billion invested in Bolivia, Petrobras represents more than 15% of the country's GDP and 20% of the tax base. (Comment: In his remarks to us, Barbosa did not address the apparent contradiction between policy goals one and two. End Comment.) Thirdly, Barbosa noted, Brazil seeks to ensure continued access to Bolivian natural gas exports to meet domestic demand. Currently, Brazil is importing 23 billion cubic meters of gas per day through the pipeline pursuant to its take or pay contract. Given burgeoning domestic demand, MME officials would like this total to rise to 30 billion by the end of 2006, at which point (assuming Bolivia was willing) the two sides would negotiate planned investments to expand pipeline capacity. Notwithstanding all the recent instability in Bolivia, that country, Barbosa emphasized, has traditionally been a reliable supplier and has not restricted the flow of gas to Brazil - something that cannot be said of the Russians with respect to Ukraine or even Argentina with respect to Brazil.

¶5. (SBU) Barbosa noted that several factors complicate the Ministry's ability to forge a coherent Bolivia policy. First, no one really knew what Morales's bottom line was. Second, with the principal Ministries (Foreign Affairs, MME,

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etc.) in recess from December 18 to early January, the Brazilian interagency process had barely begun to deal with this issue. For instance, while Minister of Mines and Energy Rondeau was being considered to represent Brazil at the January 22 Morales inauguration, Lula could well end up selecting someone else. Similarly, no one knew what significance (if any) there was to Cuba being the first stop on President-elect Morales' multi-country trip abroad -- and Brazil the last. Indeed, there had been no announcement from the Brazilian side regarding the Morales visit, Barbosa noted, possibly because so many decisionmakers were either on leave or out of the country. Finally, Barbosa observed that Brazilian policymaking was further complicated by the division between Petrobras and the Ministry. Petrobras acted in furtherance of its own commercial interests, he said, while the Brazilian government took a more policy-oriented role. These two perspectives may not necessarily lead to the same result.

¶6. (SBU) Comment. Barbosa, a career diplomat detailed to MFA, tiptoed around what others here have enunciated more clearly: the difficulty of incorporating the independent-minded Petrobras into Brazilian government decisionmaking. For its part, Petrobras is keeping a low public profile on Bolivia issues and is talking neither to the U.S. Mission nor the press. One explanation for this, offered to Consulate Rio by the Chief Economist at the industrial giant CVRD, is that Petrobras officials understand the delicate nature of the situation and are simply acting with diplomacy. An alternative view is that Petrobras now realizes that, whether egged on by Brasilia or not, it may have erred in sinking so much investment into a country with such striking economic, social, and political disparities as Bolivia.

¶7. (SBU) Comment continued. The Brazilian government is caught in between a rock and a hard place with no mountain-climbing equipment in sight. Anxious to promote greater South American integration (led, of course, by Brazil), from a political perspective Lula would like to be as solicitous as possible to Morales, even if it means accepting nationalization -- with something approaching market

compensation -- of Petrobras' assets. However, equally aware that the Brazilian economy relies heavily upon continued access to Bolivian natural gas (at least in the short-term, until Brazil's Campos basin is fully developed, circa 2010 at the earliest), the Brazilian government realizes that it may have to play hardball. If Bolivia is willing (and capable) of agreeing to a commercial solution to both the buy-out/nationalization and gas supply issue whereby all remains the same but the Brazilians just end up paying more, then this dispute is one that can be resolved. If that is not the case, then Brazil is in for some very interesting, but possibly politically and financially painful, times ahead.

CHICOLA